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Mr. Chairman, Senator Baucus and members of the Committee, thank you for this opportunity to come before you on behalf of Mayor Bloomberg to discuss New York City's experience in rebuilding after the terrorist attacks of September 11, and, in particular, our experience with the assistance provided by the Federal government.

Like all Americans and others around the world, the people of New York have been saddened by the tragedies that we have seen along the Gulf Coast in recent weeks. This tragedy has touched New Yorkers in a unique way because we remember how the entire country and the world came to our assistance when we needed it after September 11. All of the states affected by Hurricane Katrina sent rescue workers and other forms of aid. The people of Louisiana even launched a statewide campaign called "Bucks for Trucks," which paid for a new fire engine for the New York City Fire Department. This truck – named "the Spirit of Louisiana" – was assigned to Engine 283 in Brooklyn.

In a sad twist of fate, over the past few weeks, unfortunately it has become our turn to return this favor. Mayor Bloomberg announced a fundraising campaign to enable City employees to make donations to a variety of nonprofit organizations. The Mayor deployed nearly a thousand employees to the Gulf Region, including police officers, firefighters, corrections officers, and personnel from our Office of Emergency Management. In partnership with the State of New York and the New York Metropolitan Transportation Authority, we dispatched more than 70 buses. And the New York City Fire Department sent an additional five trucks to the region – including Brooklyn's Engine 283 – the Spirit of Louisiana – which has returned home to help the people whose generosity first sent her to New York.

As the nation's efforts have turned from rescue to recovery, New York has continued to look for opportunities to assist. Members of my staff, the New York City Economic Development Corporation, and the Mayor's Washington office have spoken at length with staff members to this committee and the affected states' congressional delegations to advise on the creation of a relief package. Today I'm pleased to share with you some of the most important lessons from New York's experience. In many ways the destruction caused by the hurricanes is very different from what happened in New York. However, there will, no doubt, be similarities in the rebuilding. Government action will be necessary to restore and improve infrastructure, and to provide direct assistance to businesses and individuals.

I won't try to describe the current situation in the Gulf, but let me describe the situation we faced in New York. On September 11, 2001, two thousand seven hundred and forty-nine people were killed at the World Trade Center. Seven buildings were destroyed and 30 million square feet of commercial space was lost or damaged, leaving 1.6 million tons of debris on the World Trade Center site alone. Sixty thousand jobs were lost. Crucial transportation links were destroyed. There was widespread damage to the communications and utility infrastructure of Lower Manhattan – the nerve center of the nation's and the world's financial markets. Estimates of the damage range from $80 billion to over $100 billion.

We have made tremendous progress since that dark day, under the leadership of Mayor Bloomberg and Governor Pataki. The Trade Center site was cleared ahead of schedule and under budget, thanks in large part to New York's construction firms and unions. Residential life has returned to Lower Manhattan – and even expanded. Rail and subway service has been restored, and we recently held groundbreakings for construction of two new hubs for local and regional transportation. Perhaps most importantly, we are moving forward with the rebuilding on the Trade Center Site itself, including the near-completion of a new 750-foot tall building – Number 7 World Trade Center – which today stands proudly over the Lower Manhattan skyline.

Our success to date is in large part the result of the assistance we received from the Federal government, including this Committee. I especially want to thank the New York House delegation, Senator Schumer, who is now a member of the Finance Committee, and Senator Clinton.

In the months following the attacks, the President and the Congress committed to provide $20.577 billion to help with the rebuilding of Lower Manhattan. About $15 billion of that assistance was provided through various appropriations and about $5 billion was provided through several tax provisions that were enacted in the spring of 2002.

With regard to the $15 billion worth of appropriations, I'm pleased to tell you that the City and State, with outstanding cooperation from the federal government and other governmental authorities, has efficiently and, I believe, quite effectively put these funds to use in three important areas: emergency response, disaster recovery, and redevelopment.

The story, however, with regard to the tax provisions that were enacted – the provisions which are likely most relevant to today's hearing – the results have been more mixed and, frankly, even disappointing. As the City and State have learned, the simple fact is that the tax code can, in situations like the aftermath of September 11, be a crude vehicle for delivering assistance – particularly in comparison to appropriations. This is because they provide benefitrs if and only if businesses and individuals behave in certain ways – ways that are usually outside of the control of the public sector. Accordingly, the value of these programs to the receiving jurisdiction is estimated based on projections of their use – or in other words, educated guesses on how the private sector will respond to incentives. In the case of New York, the simple fact is that these educated guesses proved, too often, to be overly optimistic, meaning that roughly 40% – or $2 billion – of the estimated value of $5 billion, has never been and never will be realized. Since this fact has significant implications for the aid package for areas affected by the hurricanes, I will explain our experience in more detail.

In the aid package provided to New York after September 11, there were a total of seven tax provisions that fell into two broad categories. One category involved tax-exempt financing, while the other involved a variety of business-related provisions. Our experience with these two categories was quite different, so I will treat each individually. Let me begin with tax-exempt financing.

Congress provided the City and State of New York with the authority to issue a face amount of $8 billion in Liberty Bond private activity bonds, with up to 20%, or $1.6 billion available for residential rental housing in Lower Manhattan. All of the $1.6 billion available for residential rental facilities has been issued or is assigned to specific projects with closings expected in the near future. Approximately $3.1 billion of the $6.4 billion remaining for commercial projects has been approved by the issuing agencies. Approved projects include:

- 7 World Trade Center, the first of the buildings destroyed on 9/11 to be replaced, which will open in early 2006
- A new headquarters and trading facility to be built by Goldman Sachs in Battery Park City in Lower Manhattan
- A new Bank of New York building in Downtown Brooklyn that houses workers that were required by federal regulators to move out of Lower Manhattan – workers who, without Liberty Bonds, could very well have been forced to leave New York City.

In addition, Silverstein Properties estimates a need for over $3 billion in Liberty Bonds for the full reconstruction of the World Trade Center site, though the timing of this reconstruction will depend on the recovery of the office market Downtown. Going forward, we will continue to carefully balance the needs of the World Trade Center site against other valuable projects that might be able to move ahead earlier with the assistance of the remaining Liberty Bond allocation.

These Liberty Bonds, valued by Congress at about $1.2 billion of the $5 billion of tax benefits, have proven to be very useful in our rebuilding effort. In particular, they have given the City and State the power to direct assistance to those projects most likely to catalyze job growth in the affected areas. But even this successful program had weaknesses in its original drafting, which included a sunset date as of the end of 2004.

Because private real estate development in the City took longer to recover than initially hoped following the September 11 attacks, a substantial portion of the Liberty Bonds were unused as of the end of 2004. The same was true of another financing mechanism approved by Congress, the advanced refunding provision (valued at about $900 million), which allowed the City and State to take advantage of lower interest rates in their bond financings. As a result, last year this Committee generously extended these two tax-exempt financing provisions to provide more time for the rebuilding to proceed. Although the original legislation did not provide for flexibility, this Committee stepped forward and acknowledged the need for that flexibility. We are grateful for that assistance.

New York has experienced more significant obstacles to the use of the other, business-related tax provisions passed by Congress in the wake of September 11 – including accelerated depreciation and employment credits. In total, these programs were estimated by the Federal Government to provide about $3 billion toward the rebuilding of Lower Manhattan. However, these programs have not been used as expected – largely, once again, because the level of economic activity in New York has not rebounded nearly as fast as Congress had projected.

This has had significant implications for the actual value of the benefits promised to the City and State after 9/11. For example, consider the program that permits accelerated depreciation for leasehold improvements in Lower Manhattan. Congress estimated the value of this benefit at $595 million, based on their projections of leasing activity. The New York City Economic Development Corporation tracks new leases signed, as well as typical leasehold improvement costs per square foot. Based on that data, we were able to estimate with a high degree of confidence that just $218 million of these benefits had actually been realized, leaving an unused benefit of $377 million. We have seen similar levels of use for other tax incentives. As a result, about two-thirds of the estimated $3 billion – or about $2 billion – in business-related tax provisions passed by Congress to help New York are unused.

As the rebuilding has moved forward in New York, it has become apparent that the mix of benefits originally enacted was not entirely what was really needed to rebuild Lower Manhattan and solidify its place as the world's financial center. The City, the State and the Lower Manhattan business community all agree that what was needed – and is still needed – are better transportation links, specifically to the pool of workers who live on Long Island and to the many national and international visitors arriving through John F. Kennedy Airport. Recognizing the validity of this conclusion, the President included in his budget a proposal to restructure the unused September 11 tax benefits to provide the infrastructure assistance that we believe will be more beneficial than the original package in promoting economic development and rebuilding in Lower Manhattan. As with the extension of the sunset date for the Liberty Bond program, this proposal would provide the necessary flexibility for New York to realize the promised value of the federal aid package.

So what went wrong in the design of the tax incentives offered to New York, and what are the implications of this for the Gulf Coast? In 2001, the nation and this Congress wanted to respond quickly to offer assistance. Though, this was an understandable and noble impulse, the fact is that But particularly as regards complex tax provisions, it is very difficult (or perhaps impossible) to predict with any certainty immediately following a catastrophic occurrence what businesses might need to recover, how they will respond to tax programs, and, accordingly, what the value of these programs as actually employed will be. As a result, in the case of New York, there remain today roughly $2 billion in unused incentives. As the Congress moves with admirable speed to address the needs of the Gulf Coast, it will be similarly difficult to predict the future need for, and likely usage of, tax benefits. In designing any programs for the Gulf Coast, therefore, I advise you to consider our experience, to ensure that the full promise of your aid package will be delivered to the people in need.

To summarize, I would like to offer five lessons that I hope will be of some use to this Committee as it begins to shape these very important benefits for the Gulf Coast.

First, Federal tax benefits can be a valuable part of any package to rebuild the Gulf Coast. In particular, a program such as the Liberty Bond program could be of great assistance in retaining businesses in the Gulf Coast as it was in New York, by allowing the public sector to target aid to critical projects. Similarly, advance refunding authority could help local governments impacted by the hurricanes, just as it helped the City's budget at a time when its tax revenues had fallen.

Despite this, the second lesson is that it is important not to overestimate the impacts of tax incentives in such a difficult and uncertain environment. The reality is that tax incentives, by their nature, tend to be less flexible than appropriations or other forms of cash-equivalent assistance that can help pay for infrastructure and other improvements. Taxes are only one determinant of a business owner's decision on whether or not to return to an area as devastated as the Gulf Coast. Moreover, a basic fact is that unless a business owes taxes, a tax benefit may not be of much help. It might be some time before many of the businesses in the Gulf Coast – particularly small local or regional businesses – owe federal income taxes. Consideration should be given to lengthening the period over which business losses can be carried back and applied to past years' tax liability, thus giving those businesses refunds and the ability to finance their own recovery. Tax incentives also require awareness and understanding among the business community. For example, surveys of the Lower Manhattan business community indicated that while about three-quarters were aware of the various grant programs, less than half were aware of the tax incentives – despite aggressive City and State marketing efforts. Additional work will be required along the Gulf Coast to administer these benefits to ensure maximum usage. These and other factors make estimates of the value of tax incentives particularly difficult.

Third, to the extent you do rely on tax incentives, it is essential not to assume that economic recovery along the Gulf Coast will be quick or will proceed according to a particular plan. The optimistic assumptions that were made in the case of New York, though well-intentioned, had several consequences, even for generally successful programs. It resulted in an overestimation of the initial value of the benefits by some $2 billion. It resulted in sunset dates that were too early, and the consequent need to revisit the proposals to extend those dates, along with the need, under Congressional scoring rules, to have the extensions scored again as costs. The rebuilding along the Gulf Coast – though it surely will happen – will take time, as it has taken time in New York.

That is why the fourth lesson is particularly important: it is crucial to allow for maximum flexibility in the design of any tax benefits or other programs. This flexibility should recognize the inherent difficulty of designing tax incentives properly in a period of significant uncertainty. Options for providing this flexibility include soft sunset dates tied to benchmarks for recovery, provisions to allow for the trade-in of unused incentives through refundable credits, or greater discretion to allocate incentives given to responsible government officials who are on the ground and can assess changing needs over time. This flexibility allows tax programs to replicate to the greatest degree possible the ideal of well-monitored, but minimally-restricted cash grants. This flexibility is the logical and appropriate response to the difficulty of predicting the future.

The fifth and final lesson I want to offer is not tied directly to the design of tax incentive programs. Instead, it is a more general observation on the challenge of rebuilding. The truth is that in the wake of the devastation of a terrorist attack or a natural disaster, simply replacing what is lost is not an option. After September 11, the decline in confidence in the future of Lower Manhattan was such that merely rebuilding millions of square feet office space and associated infrastructure would not compensate for the fear that entered people's thinking. This fear was understandable, and it even affected such mundane but important details as insurance policies dictating workforce dispersal outside of Downtown. It called into question the future of one of the nation's most important central business districts.

The Gulf Region faces or will face a similar loss of confidence. And the truth is that one cannot address that loss of confidence through tax incentives or even most other forms of traditional assistance. Instead, there must be a defined view not of how the area will return to its prior form, but rather how it will emerge better than before. In New York that view took the form of the *Mayor's Vision for Lower Manhattan*, which defined a more vibrant, dynamic mixed-use community filled with residents, visitors, and workers to replace the somewhat staid business district. In partnership with the Governor, the City is investing to create dramatic new public spaces and critically-needed infrastructure that will make Downtown a 21st century hub of global commerce and culture. Those who believe Lower Manhattan will never be the same again are right. With your help, it will be better than ever before. And so our fifth lesson for the rebuilding effort in the Gulf Region is similarly to encourage an effort to create a collective mindset – a vision – for the future of the affected area that can capture the imagination of employers, residents, and people around the country and the world. As with Lower Manhattan, the Gulf Coast will never be the same again. And, as with Lower Manhattan, with your help the Gulf Cost will be better than ever before.

I hope these thoughts are helpful to you as you continue your important work to assist the people of the Gulf Coast region. The City of New York stands ready to help in any way possible.